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Law Offices of
BRUNO, BROOKS & GOLDBERG, P.C.
730 East Beale Street
Kingman, Arizona 86401

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2003 AUG 15 P 2:03

Lee E. Bruno
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Jeffrey A. Goldberg

TELEPHONE: (928) 753-6115
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August 14, 2003

Sent Via Express U.S. Mail:

EL720216478US

Arizona Corporation Commission
DOCKETED

AUG 15 2003

Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, Arizona 85007

DOCKETED BY	
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RE: Valley Pioneers Water Company, Inc., ("Valley Pioneers")
Docket No. W-02033A-0379-0379

Dear Clerk:

Enclosed please find (1) original and (1) copy to be conformed, plus (13) copies for the Commission of the Notice of Filing Rebuttal Testimony of John Clayton and Rebuttal Testimony of John Clayton in the above reference matter for filing.

I have included a stamped, self-addressed envelope for your convenience in returning the conformed copy to me. Thank you in advance for your assistance in this matter.

If you have any questions, please feel free to call me.

Sincerely,

BRUNO, BROOKS & GOLDBERG, P.C.

Jeffrey A. Goldberg

JAG/tm
Enclosures

32R

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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

Bruno, Brooks & Goldberg, P.C.
Jeffrey A. Goldberg (No. 011496)
730 East Beale Street
Kingman, AZ 86401
Telephone (928) 753-6115
Attorneys for Valley Pioneers Water Company, Inc.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION
OF VALLEY PIONEERS WATER
COMPANY, INC., TO AMEND THE USE
OF THE PROCEEDS FROM LONG-TERM
DEBT.

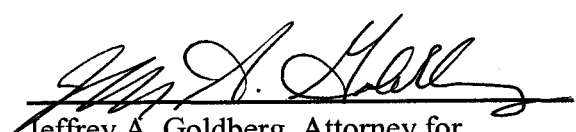
DOCKET NO. W-02033A-03-0379

**NOTICE OF FILING REBUTTAL
TESTIMONY OF
JOHN CLAYTON**

Applicant, Valley Pioneers Water Company, Inc. hereby files the Rebuttal
Testimony of John Clayton in response to Staff's Report filed on July 18, 2003 in the
above-captioned docket.

RESPECTFULLY SUBMITTED this 14th day of August, 2003.

BRUNO, BROOKS & GOLDBERG, P.C.



Jeffrey A. Goldberg, Attorney for
Valley Pioneers Water Company, Inc.

ORIGINAL and 13 copies of the
foregoing mailed this 14th day of
August, 2003, to the following:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

AUG 15 2003

DOCKETED BY	
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1 **COPY** of the foregoing
2 mailed this 14TH day of
3 August, 2003, to the following:


4 Jay L. Shapiro, Esq.
5 Dawn G. Mejdinger, Esq.
6 Fennemore Craig, PC
7 3003 N. Central Avenue, Suite 2600
8 Phoenix, Arizona 85012
9 Attorneys for Phelps Dodge

10 Steve Wene, Esq.
11 Moyes Storey, Ltd.
12 3003 N. Central Avenue, Suite 1250
13 Phoenix, Arizona 85012
14 Attorneys for the Chloride Domestic Water Improvement District

15 Mr. Christopher Kempley, Chief Counsel
16 Legal Division
17 Arizona Corporation Commission
18 1200 West Washington Street
19 Phoenix, Arizona 85007

20 Lisa VandenBerg, Esq.
21 Legal Division
22 Arizona Corporation Commission
23 1200 West Washington Street
24 Phoenix, Arizona 85007

25 Mr. Ernest Johnson, Director
26 Utilities Division
27 Arizona Corporation Commission
28 1200 West Washington Street
Phoenix, Arizona 85007

By 

1 Bruno, Brooks & Goldberg, P.C.
2 Jeffrey A. Goldberg (No. 011496)
3 730 East Beale Street
4 Kingman, AZ 86401
5 Telephone (928) 753-6115
6 Attorneys for Valley Pioneers Water Company, Inc.

7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

8 IN THE MATTER OF THE APPLICATION
9 OF VALLEY PIONEERS WATER
10 COMPANY, INC., TO AMEND THE USE
11 OF THE PROCEEDS FROM LONG-TERM
12 DEBT.

DOCKET NO. W-02033A-03-0379

**REBUTTAL TESTIMONY OF
JOHN CLAYTON**

11 **I. INTRODUCTION AND QUALIFICATIONS**

12 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND TELEPHONE**
13 **NUMBER.**

14
15 A. My name is John Clayton and my business address is 3482 North McNeal Road, Golden
16 Valley, Arizona 86413. My telephone number is 928-565-4663.

17 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

18 A. I am employed by Valley Pioneers Water Company, Inc. ("VPWC"), the applicant in this
19 matter, as Manager.

20
21 **Q. FOR HOW LONG HAVE YOU BEEN EMPLOYED BY VPWC?**

22 A. Approximately 17 years.

23 **Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR PROFESSIONAL**
24 **CERTIFICATIONS AND AFFILIATIONS.**

1 A. I am certified by the State of Arizona as a Grade 2 Water Treatment Plant Operator and
2 Grade 3 Water Distribution System Operator. I am also a member of the Board of Directors
3 and an Officer of the Arizona Small Utilities Association.

4 **Q. PLEASE BRIEFLY OUTLINE YOUR RESPONSIBILITIES AS MANAGER OF**
5 **VPWC.**
6

7 A. My responsibilities as Manager for VPWC include the day-to-day management of the water
8 company operations and planning for VPWC's current and future water supply
9 requirements. I am also responsible for overseeing all regulatory compliance matters.

10 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE ARIZONA**
11 **CORPORATION COMMISSION?**
12

13 A. Yes, I have testified on behalf of VPWC numerous times in connection with other
14 applications submitted to the Commission.

15 **II. PURPOSE AND SUMMARY OF TESTIMONY**
16

17 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

18 A. The purpose of my rebuttal testimony is to provide background regarding VPWC, to
19 describe its critical need for additional water supplies, to discuss the contract for sale of a
20 water system between Phelps Dodge and VPWC, and to respond to the Utilities Division
21 Staff Report issued on July 18, 2003 in this proceeding.
22

23 **Q. HOW MANY CUSTOMERS DOES VPWC SERVE?**

24 A. VPWC serves about 4,100 customers in and around Golden Valley, Arizona, most of which
25 are residential customers. Golden Valley is a rural, unincorporated community located
26

1 approximately six miles from Kingman, Arizona. VPWC has been providing water utility
2 service in this area since 1967 under a certificate of convenience and necessity issued by
3 the Arizona Corporation Commission.

4 **Q. WHY IS VPWC SEEKING RELIEF FROM THE COMMISSION?**

5
6 A. On October 31, 2001, VPWC received authority from the Commission to finance
7 construction of a new well and to construct and/or acquire other related and necessary
8 capital improvements. Decision No. 64173. Since receiving that authority, VPWC has
9 discovered an opportunity to purchase an existing water system (the "Water System") from
10 Phelps Dodge. Although VPWC does not require Commission approval to enter into an
11 agreement with Phelps Dodge, we would like to change the use of the financing authorized
12 in Decision No. 64173 to acquire the Water System from Phelps Dodge. Buying the Water
13 System is a great opportunity for VPWC and its customers.
14

15 **Q. HAVE YOU REVIEWED THE STAFF REPORT IN THIS MATTER?**

16 A. Yes, and VPWC is very concerned over it. Staff recognizes that this is a good deal for
17 VPWC but then goes on to recommend that the deal be renegotiated to address its concerns
18 over the interests of Equitorial Mineral Park Mine ("EMP") in the Water System.
19 Unfortunately, this deal, already subject to EMP's rights in a License Agreement between
20 EMP and Phelps Dodge, cannot be modified. (See Letter from EMP, Exhibit "A"). If
21 Staff's conditions are adopted, we will not be able to acquire the Water System from Phelps
22 Dodge.
23
24

25

26

1 **III. THE ORIGINAL PROJECT**

2 **Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF THE ORIGINAL PROJECT**
3 **FOR WHICH THE APPROVAL OF FINANCING WAS REQUESTED?**

4 A. The original application to the Commission sought approval of financing in the amount of
5 \$1,300,000 to drill and equip a new well, to construct two 500,000 gallon storage tanks and
6 to install a 12-inch transmission main line (see Staff Report, Page 1).

7
8 **Q. WERE THERE ANY PROJECTIONS CONCERNING THE ANTICIPATED**
9 **PRODUCTION OF THE NEW WELL, AND IF SO, WHAT WERE THEY?**

10 A. Yes. The engineer from VPWC projected a well with approximate production of 600
11 gallons per minute ("gpm"); but these projections were not based upon any detailed and
12 specific hydrological data.
13

14 **IV. PURCHASE OF THE PHELPS DODGE WATER SYSTEM AND THE LICENSE**
15 **AGREEMENT**

16 **Q. WHY DID VPWC SEEK TO PURCHASE THE WATER SYSTEM FROM PHELPS**
17 **DODGE INSTEAD OF DRILLING A NEW WELL AS ORIGINALLY PROPOSED?**

18 A. Pete Foster from the Arizona Department of Environmental Quality ("ADEQ") initially
19 approached me and the VPWC Board about the possibility of purchasing the Water System
20 as source additional water for VWPC's customers and as a means to provide water for
21 Chloride. After VPWC completed its initial investigation, it became clear to us that the
22 purchase of the Water System would provide VPWC's customers with an established and
23 proven water supply at a much more reasonable cost, with much less risk than the originally
24 proposed new well. The purchase of the Water System will also enable VPWC to supply
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1 water to the Town of Chloride, which has a very dire need for water at this time and has no
2 other feasible sources available. The proposed new well would cost as much as the entire
3 Phelps Dodge Water System, produce only a fraction of what the Phelps Dodge system is
4 capable of producing, and entail a significant risk that it may not even produce the 600 gpm
5 as projected (Staff Report, Page 3). Even though the Water System is subject to the
6 existing rights of EMP, it still is by far a better solution to VPWC's need for additional
7 water.
8

9 **Q. WHAT ADDITIONAL WATER SUPPLY DOES VPWC EXPECT TO OBTAIN**
10 **FROM THE PHELPS DODGE WATER SYSTEM?**

11 A. VPWC will be able to obtain approximately 2,000 gpm from Wells #2 and #3, which are
12 currently in operation. The financing from RUS also includes funds to repair and refurbish
13 Well #1, which has proven production of approximately 1,000 gpm. Even in the unlikely
14 event EMP used the entire 3,000 acre feet per year (1,300 gpm) it is entitled to under the
15 License Agreement, and VPWC supplies a full 100 acre feet per year (approximately 62
16 gpm) to Chloride, VPWC will still increase its net supply by 1,638 gpm, without
17 considering the supply from Wells #4 and #5 (Staff Report, Page 1). Well #4 has proven
18 production of approximately 800 gpm and Well #5 has proven production of over 1,000
19 gpm. When the capacity is needed and funds are available, VPWC will have this additional
20 water available at a reasonable cost.
21
22

23 **Q. WHAT IS THE CURRENT PRODUCTION CAPACITY OF VPWC'S CURRENT**
24 **WATER SYSTEM?**
25
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27

1 A. VPWC's entire system currently provides approximately 500 gpm. The worse thing that
2 could happen is VPWC will quadruple its water supply capacity for the same cost it
3 previously hoped to double it.

4 **Q. WHY DID VPWC AGREE TO PURCHASE THE WATER SYSTEM SUBJECT TO**
5 **THE LICENSE AGREEMENT WITH EMP?**
6

7 A. VPWC has no other alternative if it wants to purchase the Water System. EMP currently
8 leases Wells #2 and #3 from Phelps Dodge, along with two booster stations that are part of
9 the Water System, under a written lease agreement. The lease remains in effect as long as
10 EMP actively mines the Mineral Park Mine (Staff Report, Page 2). Under the existing
11 lease, EMP has the right to control, use and take water from the leased portions of the
12 Water System, up to the total amount of 3,000 acre feet per year. EMP was hesitant to give
13 up any of its rights under the existing lease because it understandably considered the water
14 source a crucial part of the value of the Mineral Park Mine. EMP would only consider an
15 agreement that granted EMP a specific right to use and acquire water from the Licensed
16 System. EMP made it clear in negotiations that it would not accept any agreement that did
17 not provide all or at least most of the rights that it held under its original lease.
18

19 **Q. PLEASE PROVIDE A BRIEF SUMMARY OF THE NEGOTIATIONS LEADING**
20 **UP TO THE DRAFTING OF THE LICENSE AGREEMENT.**
21

22 A. VPWC began serious negotiations with EMP and Phelps Dodge in March of 2002. The
23 primary stumbling block to the purchase of the Water System was the difficulty in reaching
24 an agreement with EMP that would address EMP's concerns while permitting VPWC to
25 operate the affected portions of the Water System for the benefit of its customers. After
26

1 several meetings between the parties and numerous discussions regarding basic terms and
2 the form of an agreement, in September of 2002, it appeared that negotiations had broken
3 down and that EMP and VPWC would not be able to reach an agreement within a
4 reasonable period of time. After that time, the parties resumed intense negotiations of the
5 License Agreement concept and continued to negotiate until approximately April 18, 2003,
6 when the parties agreed upon a final draft.
7

8 **Q. CAN YOU EXPLAIN HOW THE RATE TO BE CHARGED TO EMP UNDER THE**
9 **LICENSE AGREEMENT WAS DETERMINED?**

10 A. Yes. The initial base rate of \$1.02 per 1,000 gallons of water supplied was based upon
11 EMP's current actual operating and capital costs. This rate includes \$.80 per 1,000 gallons
12 for power cost, \$.06 per 1,000 gallons for ordinary maintenance and repairs, \$.15 per 1,000
13 gallons for extraordinary maintenance and repairs and \$.01 per 1,000 gallons for general
14 overhead and miscellaneous expenses. The Base Rate in the License Agreement does not
15 include expenses for the portion of the Licensed System extending from Booster Station # 2
16 to the Mineral Park Mine. All costs associated with delivery of water from and
17 maintenance and operation of the Licensed System from Booster Station # 2 to the Mineral
18 Park Mine shall remain EMP's obligation throughout the term of the License Agreement.
19
20

21 **Q. CAN YOU EXPLAIN HOW THE RATE ADJUSTMENT WAS DETERMINED**
22 **UNDER THE LICENSE AGREEMENT?**

23 A. Yes. The ultimate agreement regarding an annual adjustment for the operating and ordinary
24 maintenance and expense component and five-year adjustment for extraordinary capital
25 expense, was the product of very involved negotiations with EMP. Throughout the
26
27

1 negotiations, EMP refused to agree to adjust the Base Rate any more frequently than the
2 periods provided in the License Agreement. EMP viewed the adjustment provisions as a
3 favorable term that gave it something for giving up its rights under its original lease with
4 Phelps Dodge.

5
6 **Q. DID VPWC REQUEST EMP MODIFY THE LICENSE AGREEMENT TO**
7 **ADDRESS STAFF'S CONCERNS?**

8 A. Yes. After ACC raised its initial concerns, our attorney, along with counsel for Phelps
9 Dodge, approached the new owners of EMP and asked if EMP would agree to any
10 modifications of the License Agreement. The only term EMP would agree to modify was
11 to reduce the adjustment period for the capital expense component of the base rate from
12 five to two years.

13
14 **V. RESPONSE TO STAFF REPORT**

15 **Q. PLEASE SUMMARIZE VPWC'S RESPONSE TO THE STAFF REPORT.**

16 A. Although the Staff sees the obvious benefit to the purchase of the Water System from
17 Phelps Dodge and recommends approval of the Application, it has recommended
18 conditions that cannot be satisfied. Staff seems to assume that EMP will further negotiate
19 the License Agreement or make additional concessions, although Staff denies that it has
20 made such assumptions (See, Staff Response to VPWC's First Set of Data Requests, No. 9,
21 Exhibit "B"). That is simply not the case (See Letter from Mike Surratt of EMP dated
22 August 11, 2003, Exhibit "A").

23
24 **Q. DO YOU HAVE OTHER SPECIFIC CONCERNS WITH THE STAFF'S**
25 **RECOMMENDATIONS?**
26

1 A. Yes, although most of the following concerns are related to the central point that EMP will
2 not further negotiate the License Agreement:

3 Staff Recommendation No. 1. Staff recommends that VPWC "institute a
4 mechanism so that EMP is responsible for 65 % of the capital costs for repair and
5 replacement...(of the licensed system)". Under the License Agreement as drafted, EMP
6 would agree only to be responsible for its pro-rata share of the capital expenses of the
7 Licensed System. This means that if EMP used 65% of the water from the Licensed
8 System, it would be responsible for 65% of the capital costs. It is unrealistic for the Staff
9 to recommend and in effect require EMP to pay more than its proportionate share of the
10 capital costs based solely upon what EMP could demand from the Licensed System. This
11 is particularly true in this case, considering the historical use by the Mine. In 1981, most of
12 the major facilities for the Mine were removed. For the past 22 years, the mining operation
13 consisted solely of a leaching process. During this time, the Mine has never used greater
14 than 370 acre feet per year out of the 3,000 acre feet per year that it could demand from the
15 Licensed System. In other words, EMP has only used approximately 12.3% of the "peak
16 demand" that it is entitled to receive under the existing lease. The new owners of EMP
17 have projected some long-term expansion plans at the Mineral Park Mine, which could
18 increase EMP's use by approximately 20% over a period of five to ten years. If the
19 expansion occurred at the rate projected by EMP, its use could increase to approximately
20 444 acre feet per year or 14.8% of the peak demand and EMP would pay the resulting
21 increased percentage of the total capital costs. EMP will not agree to pay 65% of the
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1 capital expenses related to the Licensed System unless it is using that amount of the water
2 supplied from the System.

3 Staff Recommendation No. 2. Staff recommends that "for that part of the licensed
4 system which is beyond Valley Pioneers certificated area, Valley Pioneers institute a
5 mechanism that provides for EMP to be immediately responsible for 100 percent of the
6 capital costs for equipment repairs and replacement." The License Agreement (Section 5)
7 already provides that all costs of operating and maintaining the Licensed System from
8 Booster Station #2 to the Mineral Park Mine shall be borne by EMP. Further, the portion
9 of the Licensed System outside of VPWC's certificated area up to Booster Station #2 will
10 be used to provide water to Chloride, in addition to supplying EMP. EMP is paying a pro-
11 rata portion of the capital and operational costs of that part of the Licensed System and
12 VPWC will also be recovering some of those costs indirectly through the rate charged to
13 Chloride.
14
15

16 Staff Recommendation Number 3. Staff recommends that "if any other entity
17 lawfully receives water ...outside the certificated area, then Valley Pioneer must reduce
18 EMP's share of the capital costs proportionately." Staff seems to understand the logic
19 behind pro-rata cost sharing based on use, but it is not willing to base the pro-ration on
20 EMP's share of water actually used from the Licensed System. Instead, the Staff starts with
21 65% of the costs being allocated to EMP, with EMP's share being reduced only by an
22 amount as it relates to EMP's possible peak demand use and not its actual use. I do not
23 understand the Staff's rationale and in any event, EMP will not agree to this condition.
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1 Staff Recommendation Number 4. Staff recommends that "Valley Pioneers provide
2 a mechanism for the license base Charge be adjusted annually and that the calculation
3 include all elements of traditional ratemaking". First, the License Agreement already
4 provides for annual adjustment to the Base Rate as recommended by Staff. Second, the
5 Base Rate includes all of the elements contained in Staff's recommendation, except a "rate
6 of return component". Since VPWC's and EMP's joint use of the Licensed System is not
7 subject to rate regulation by the Commission, I do not feel it is appropriate for the Staff to
8 impose the requirements that it would in an ordinary rate case.
9

10 Staff Recommendation Number 5. Staff recommends that Valley Pioneers sell or
11 lease the portion of the Licensed System from Booster Station #2 to the Mine. VPWC has
12 informed Staff in its application that subject to approval of RUS after the RUS loan closes,
13 VPWC intends to transfer the subject portion of the Licensed System to EMP.
14

15 Staff Recommendation Number 6. Staff recommends that approval be conditioned
16 upon testing of the wells in the Water System currently not in use (Wells #1, 4 and 5) to
17 confirm compliance with Arizona Drinking Water Rules. It is my understanding that the
18 entire Water System was certified as a potable water system by the ADEQ. Further,
19 considering the tests on the two operating wells, it is unlikely that the water from the other
20 wells would not meet the State standards. To test these wells again prior to bringing them
21 on line would be expensive and is unnecessary.
22

23 Staff Recommendation Number 7. Staff recommends that VPWC "provide a
24 mechanism to impose an interruptible service clause upon EMP in the event that Valley
25 Pioneers has to implement the Commission approved curtailment tariff". VPWC objects to
26
27

1 this condition because the Staff assumes that EMP is subject to regulation by the
2 Commission or that EMP will voluntarily agree to modify the License Agreement to
3 include this provision. Neither assumption is correct.

4 Staff Recommendation Number 8. Staff recommends that VPWC "provide a
5 mechanism in the event EMP curtails or ceases production and an outstanding balance from
6 the capital component exists, EMP will be required to pay the outstanding balance to
7 Valley Pioneers immediately upon notice by the Company." Again, VPWC objects to this
8 condition because the Staff incorrectly assumes that EMP will renegotiate the License
9 Agreement to include such a condition.
10

11 Staff Recommendation Number 9. Staff recommends that a single point of delivery
12 be established so that costs of providing water to Chloride can be clearly identified and
13 there is no subsidization of Chloride by the customers of VPWC. VPWC already intends to
14 provide water to Chloride at a determined single delivery site as the Staff recommends.
15 Further, there will be no subsidization of Chloride because the rate that will be charged to
16 Chloride will be sufficient to cover all capital and operational costs of providing water to
17 Chloride and will be set within the schedule of rates established by the Commission.
18
19

20 **Q. WHAT WILL BE THE EFFECT ON VPWC'S CUSTOMERS IF THE PURCHASE**
21 **OF THE PHELPS DODGE SYSTEM IS NOT APPROVED BY THE**
22 **COMMISSION?**

23 **A.** The current production of the VPWC system is not sufficient to meet the current or
24 anticipated supply requirements of its customers. Since last spring, the Commission has
25 denied all requests by VPWC for further extensions of the main water lines to service
26

1 additional customers because of inadequate water supply. VPWC will have to develop
2 other sources of water to meet its current needs at a much greater risk and expense. VPWC
3 has spent over a year and \$60,000 in connection with the purchase of the Water System. If
4 VPWC is forced to go "back to the drawing board", it will cost a significant amount of
5 money and take time that VPWC can not spare. VPWC was only able to supply all of its
6 needs this summer because it had no major breakdowns. It must have a reliable additional
7 source of water in place by next summer to adequately supply its customers and avoid
8 shortages. It is unlikely that VPWC could submit a new proposal and obtain approval of
9 RUS and the Commission within that time frame. It is also unlikely that VPWC could find
10 any alternative that even comes close to providing the quality and volume of water it would
11 get from the Phelps Dodge Water System for the dollars invested.
12
13

14 **Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

15 **A.** Yes.
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EXHIBIT “A”



Equatorial Mineral Park, Inc.

8-12-03

Tel. No. (520) 565-2226 Fax No. (520) 565-9239

HC 37 Box 500

Kingman, Arizona 86401

Mr. Don Stillwell
Phelps Dodge Corporation
One North Central Avenue
Phoenix, AZ 85004

Mr. John Clayton, Manager
Valley Pioneers Water Company, Inc.
3482 North McNeal Road
Golden Valley, AZ 86413

RE: Pending Sale of Phelps Dodge Bagdad Inc. ("PDBI") Water System to Valley Pioneers Water Company ("VPWC")

Dear Messrs. Stillwell and Clayton,

It is my understanding that closing of the May 21, 2003 VPWC purchase contract relative to PDBI's water system in Golden Valley, Arizona is contingent on VPWC receiving approval from the Arizona Corporation Commission ("ACC") authorizing the use of loan funds for the purchase. In that regard, it is also my understanding the ACC Utilities Division Staff ("Staff") issued a report in July, 2003 indicating that Staff recommends approval of the VPWC's request to use loan funds for the purchase of the PDBI system subject to certain specified conditions.

On behalf of Equatorial Mineral Park, Inc. ("EQMP"), I want to advise PDBI and VPWC that EQMP will not accept any further substantive modification to the form of license agreement that is attached as an exhibit to the May 21, 2003 purchase contract. It is EQMP's position that EQMP has an existing possessory interest in a portion of the PDBI water system pursuant to a September, 1997 lease agreement and that EQMP has made all of the accommodations it is willing to make with respect to facilitating the VPWC purchase of the PDBI system.

It is not EQMP's intention to make it more difficult for VPWC to acquire needed sources of additional water supply. EQMP relies on the leased water supply as it is vital to the operations of the Mineral Park Mine and the company has a strong interest in protecting and maintaining its interest in the water supply. EQMP looks forward to finalizing the negotiated transaction and wishes you the best in the pending ACC proceedings.

Sincerely,

Mike Surratt
President
Equatorial Mineral Park Inc.

*Mine Site: 16 Miles North of Kingman, AZ on Hwy 93.
5 Miles East on Mineral Park Road.*

EXHIBIT "B"

**ARIZONA CORPORATION COMMISSION STAFF'S
REPOSE TO VALLEY PIONEERS WATER COMPANY
FIRST SET OF DATA REQUESTS/ REQUESTS FOR ADMISSIONS
REGARDING THE RATE APPLICATION
DOCKET NO.: W-02033A-03-0379**

Request No. 9:

Does Staff have any legal or factual basis for its assumption that EMP will further negotiate the License Agreement to conform with the recommendations of Staff contained in the Staff Report? If the answer is yes, please state with specificity the grounds for this response.

Answer:

Staff has made no such assumption. Staff's recommendations are directed toward the order that the Commission will produce with regard the Valley Pioneers.

RESPONDENT(S): Claudio Fernandez, Utilities Division
Lyndon Hammon, Utilities Division